

FIRST NATIONS AND MÉTIS FUND INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2008

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of financial position of First Nations and Métis Fund Inc. as at December 31, 2008 and the statements of operations and comprehensive income, retained earnings (deficit), and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

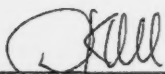
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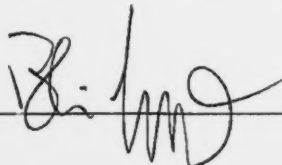
FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF FINANCIAL POSITION

As at December 31

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	\$ 1,189,184	\$ 939,871
Interest and accounts receivable	<u>52,194</u>	<u>21,038</u>
	1,241,378	960,909
Funds held in escrow (Note 5)	-	2,200,000
Investments (Note 6)	<u>2,941,198</u>	<u>942,646</u>
	<u>\$ 4,182,576</u>	<u>\$ 4,103,555</u>
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIENCY)		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 14,114	\$ 28,679
Due to Crown Investments Corporation of Saskatchewan (Note 7)	<u>4,100,000</u>	<u>4,100,000</u>
	<u>4,114,114</u>	<u>4,128,679</u>
Shareholder's equity (deficiency)		
Share capital (Note 8)	100	100
Retained Earnings (Deficit)	<u>68,362</u>	<u>(25,224)</u>
	<u>68,462</u>	<u>(25,124)</u>
	<u>\$ 4,182,576</u>	<u>\$ 4,103,555</u>
Commitments (Note 9)		
(See accompanying notes)		

 _____, Director

 _____, Director

FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the year ended December 31

	2008	2007
REVENUES		
Commitment fee	\$ 15,000	\$ -
Financing fee	8,800	-
Interest	310,163	249,587
Unrealized (loss) gain on investments (Note 6)	<u>(21,448)</u>	<u>57,646</u>
	<u>312,515</u>	<u>307,233</u>
EXPENSES		
Audit fees	8,425	12,660
Investment committee remuneration & expenses	14,748	13,726
Management fees (Note 10)	189,150	190,800
Marketing	6,239	5,467
Office and other	<u>367</u>	<u>495</u>
	<u>218,929</u>	<u>223,148</u>
NET EARNINGS	93,586	84,085
OTHER COMPREHENSIVE INCOME	<u>-</u>	<u>-</u>
COMPREHENSIVE INCOME	<u>\$ 93,586</u>	<u>\$ 84,085</u>

FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF RETAINED EARNINGS (DEFICIT)

For the year ended December 31

	2008	2007
DEFICIT, BEGINNING OF YEAR	(25,224)	(109,309)
NET EARNINGS	<u>93,586</u>	<u>84,085</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR	<u>\$ 68,362</u>	<u>\$ (25,224)</u>

(See accompanying notes)

FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF CASH FLOWS

For the year ended December 31

	2008	2007
OPERATING ACTIVITIES		
Net earnings	\$ 93,586	\$ 84,085
Unrealized loss (gain) on investments	21,448	(57,646)
Net change in non-cash working capital balances related to operations:		
Increase in interest and accounts receivable	(31,156)	(6,610)
Decrease in accounts payable and accrued liabilities	<u>(14,565)</u>	<u>(35,502)</u>
Cash provided by (used in) operating activities	<u>69,313</u>	<u>(15,673)</u>
INVESTING ACTIVITIES		
Collection of loan receivable	180,000	15,000
Purchase of investments	(2,200,000)	-
Decrease (increase) in funds held in escrow	<u>2,200,000</u>	<u>(2,200,000)</u>
Cash provided by (used in) investing activities	<u>180,000</u>	<u>(2,185,000)</u>
NET CHANGE IN CASH DURING YEAR	249,313	(2,200,673)
CASH POSITION, BEGINNING OF YEAR	<u>939,871</u>	<u>3,140,544</u>
CASH POSITION, END OF YEAR	<u>\$ 1,189,184</u>	<u>\$ 939,871</u>

Cash position consists of cash and cash equivalents

(See accompanying notes)

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

1. Status of the Corporation

First Nations and Métis Fund Inc. (the Corporation) was established on May 9, 2006 under *The Business Corporations Act*. The Corporation is a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincial Crown corporation. Accordingly, the accounts of the Corporation are consolidated in the annual financial statements of CIC.

The Corporation was established to provide venture capital to qualifying First Nations and Métis businesses in the Province of Saskatchewan. Due to the Corporation's ownership structure, it is not subject to provincial or federal income tax.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Fair values of investments are estimated using present value models and may not reflect actual settlement amounts.

b) Cash and cash equivalents

Cash and cash equivalents include investments in money market instruments that have a maturity date of 90 days or less from the date of acquisition. The cash equivalents are stated at fair value due to their short-term maturity.

c) Investments

Investments in bonds, debentures and subordinated debentures are recorded at fair value. Investments in shares of private and public companies in which the Corporation does not exercise significant influence are recorded at fair value and dividends from these shares are recorded as income when receivable.

Where there has been a decline in the value of an investment that is not considered temporary, the investment is written down to its fair value.

Trade-date accounting is used when recording the purchase or sale of investments.

The Corporation recognizes all transaction costs immediately in net income. In 2008 there were no transaction costs to be recorded.

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

2. Summary of Significant Accounting Policies (continued)

d) Financial Instruments

All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. The Corporation has made the following classifications:

- Cash and cash equivalents, and funds held in escrow, are classified as financial assets held-for-trading and are measured at fair value.
- Interest and accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method.
- Investments are classified as held-for-trading and recorded at fair value.
- Accounts payable and accrued liabilities and the amount due to CIC are classified as other liabilities and measured at amortized cost using the effective interest rate method.

e) Revenue recognition

Revenue from investments held is recorded as income in the period earned. Income from debt investments is recognized as earned and income from share capital investments is recognized when receivable.

f) Future accounting policy changes

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation has determined that adoption of IFRS will have no material effect on the Corporation's financial statements.

3. Changes in Accounting Policy

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments - disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged from the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

4. Cash and Cash Equivalents

Included in cash and cash equivalents is \$1,124,881 (2007 - \$865,856) of investments maturing within 90 days of year end, which have an effective interest rate of 2.15 per cent (2007 - 4.70 per cent).

5. Funds Held in Escrow

As of December 31, 2008 the Corporation had \$nil (2007 - \$2,200,000) in escrow. Amounts in escrow at December 31, 2007 were distributed to L & M Wood Products Limited Partnership (L&M) on February 14, 2008. A fee of 8.0 percent per annum was earned on funds held in escrow.

6. Investments

Investments are comprised of the following:

	2008	2007
Eagle Vision Mulching Inc - cost (a)	\$ 705,000	\$ 885,000
L & M Wood Products LP - cost (b)	<u>2,200,000</u>	<u>-</u>
	2,905,000	885,000
Unrealized appreciation of investments	<u>36,198</u>	<u>57,646</u>
Investments at fair value	<u>\$ 2,941,198</u>	<u>\$ 942,646</u>

Investments changed as follows:

	2008	2007
Investments at fair value - beginning of year	\$ 942,646	\$ 900,000
Purchase of investments	2,200,000	-
Repayments of investments	(180,000)	(15,000)
Net change in unrealized appreciation of investments	<u>(21,448)</u>	<u>57,646</u>
Investments at fair value - ending of year	<u>\$ 2,941,198</u>	<u>\$ 942,646</u>

- a) On December 29, 2006, the Corporation entered into a Term Loan Agreement with Eagle Vision Mulching Inc. The Term Loan is for a five-year term with an interest rate of 12.0 percent, and the interest is calculated and payable monthly. Principal amounts of \$15,000 are repaid on a monthly basis beginning December 1, 2007. There is an annual bonus interest payable based on Eagle Vision Mulching Inc.'s net profit.

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

6. Investments (continued)

- b) On December 7, 2007 the Corporation advanced funding in the amount of \$2,200,000 for an investment in L&M. These funds were held in escrow until February 14, 2008 at which time the funds were released to L&M. The \$2,200,000 is comprised of the following:

Subordinated Debenture of \$1,250,000 which has a five-year term with an interest rate of 12.0 percent, calculated and payable monthly. Principal amounts of \$14,063 are required to be repaid on a monthly basis beginning on March 1, 2009, with a lump sum payment of \$589,063 to be made at the maturity date. The subordinated debt portion of the Term Loan contains warrants equal to 4.0 percent common voting units. Prepayment penalties have been put in place as follows: months 1 to 12 - 4.0 percent, months 13 to 36 - 3.0 percent, months 37 to 43 - 2.0 percent and months 44 to 60 - 1.0 percent.

Preferred Units portion of the Term Loan of \$950,000 includes Put Rights which state that at any time, but not before 5 years following the Corporation's first advance of its equity investment, the Corporation may request that L&M purchase all or some of its Preferred Units in L&M. This portion of the Term Loan also includes Call Rights which state that at any time, but not before 7 years following the Corporation's first advance of its equity investment, L&M may request that the Corporation sell to L&M all, but not less than all of its Preferred Units in L&M. The value of these units for the purposes of the provisions is outlined in the Term Loan agreement.

The Corporation is entitled to appoint one director to L&M's board of directors.

7. Due to Crown Investments Corporation of Saskatchewan

Order in Council #365/2006 authorized the Corporation to obtain funds not to exceed \$20,000,000 from CIC. Amounts due to CIC are non-interest bearing and payable on demand.

8. Share Capital

	2008	2007
Authorized - 100 Class A voting shares		
Issued and outstanding - 100 shares	\$ <u>100</u>	\$ <u>100</u>

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

9. Commitments

The Corporation has committed to invest up to \$1,500,000 in Eagle Vision Mulching Inc., subject to certain milestones. The Corporation has provided \$900,000 of this commitment to December 31, 2008.

10. Management Fees

Under the terms of a management services agreement between Westcap Mgt. Ltd. and the Corporation, Westcap Mgt. Ltd. provides the general management and administration for the business and affairs of the Corporation for a monthly service fee. The management fee is calculated as the greater of i) 1/12th of 2.5 percent of the Corporation's net asset value or ii) \$15,000 monthly. The management service agreement expires in 2020.

11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations related to the Corporation by virtue of common control by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

CIC provides management services to the Corporation without charge.

12. Financial Instruments

The financial instruments of the Corporation include cash and cash equivalents, interest and accounts receivable, funds held in escrow, accounts payable and accrued liabilities that have carrying amounts that approximate fair value due to their short-term maturity. The Corporation measures its investments classified as held-for-trading at fair value.

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008

12. Financial Instruments (continued)

Market Risk

Market risk faced by the Corporation is the risk that the fair value of its investments may decline due to a reduction in the anticipated earnings generated by the businesses invested in. The Corporation's current investments are dependent upon a single product or industry. Any changes to fair value of these investments will be charged through net earnings in the period in which they occur.

Interest Rate Risk

Interest rate risk reflects the risk that the Corporation's earnings will fluctuate due to changes in interest rates. The Corporation is exposed to interest rate risk on its investments in loans, debentures and short-term cash deposits. The Corporation does not believe that the impact on fluctuations in interest rates will be significant and therefore has not provided a sensitivity analysis of the impact on net earnings.

Credit Risk

Credit risk is the risk that an investee will fail to perform its obligations. The ability of an investee to meet contractual obligations is affected by changing economic, political or other conditions. The Corporation conducts a due diligence process prior to committing to the investment and actively monitors the financial conditions of its investments.

Liquidity Risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due. The Corporation is a subsidiary of a Provincial Crown corporation and as such has access to capital markets through the Saskatchewan Ministry of Finance. Currently the Corporation has sufficient resources to discharge all liabilities.

